



Commonwealth of Kentucky Public Protection Cabinet

Morgan Keegan Q & A

Question:

What action has the Kentucky Department of Financial Institutions (DFI) taken against Morgan Keegan?

Answer:

DFI and three other states have filed a joint administrative action against Morgan Keegan & Company, Morgan Asset Management and certain corporate officials seeking to bar them from doing business in Kentucky by revoking registrations. DFI also intends to seek administrative penalties and restitution for investors. You can review a copy of the action online at www.kfi.ky.gov/public/morgankeegan.htm.

Question:

Why has DFI brought an administrative action against Morgan Keegan & Company and Morgan Asset Management?

Answer:

DFI is the administrator of securities for the Commonwealth of Kentucky. We are charged with registering broker-dealers and investment advisers in the state and making sure that they comply with the Kentucky Securities Act (KRS Chapter 292). Morgan Keegan & Company is a registered broker-dealer. Morgan Asset Management is a registered investment adviser. Our agency has initiated administrative action against both companies because we believe they have failed to conduct their businesses as required by state law.

The specific allegations include:

- Made material omissions and misrepresentations in marketing materials,
- Made material omissions and misrepresentations in regulatory filings,
- Withheld information from and misrepresented information concerning the funds to the Morgan Keegan Sales force,
- Provided preferential treatment to certain customers,
- Failed to make suitable recommendations concerning purchase and concentration of the funds in customer accounts,
- Failed to adequately supervise their employees, and
- Obstructed the due diligence process.

Question:

What funds are involved?

Answer:

Six proprietary mutual funds are at issue:

MKIBX - Regions Morgan Keegan Select Intermediate Bond Fund

MKHIX - Regions Morgan Keegan Select High Income Fund

RMA - Regions Morgan Keegan Advantage Income Fund

RMH - Regions Morgan Keegan High Income Fund

RHY - Regions Morgan Keegan Multi-Sector High Income Fund

RSF - Regions Morgan Keegan Strategic Income Fund

Question:

How many customers are affected?

Answer:

The mutual funds at issue lost approximately \$2 billion from March 31, 2007, to March 31, 2008, affecting approximately 13,000 customers.

Question:

How many Kentucky investors were involved?

Answer:

Kentucky investors lost more than \$9.4 million in only one of the six funds. There were approximately 891 Kentucky accounts in the Select Intermediate Bond Fund. Morgan Keegan did not provide Kentucky data on the other five funds involved in this action.

Question:

How many Morgan Keegan branches operate in Kentucky?

Answer:

Kentucky branch offices include:

Louisville (2)

Lexington

Covington

Maysville

Mayfield

Paducah (2)

Murray

Franklin

Question:

Will Morgan Keegan customers recover their lost investments after the administrative action is completed?

Answer:

Our Office, along with the other states, intends to seek restitution for these investors.

Question:

What happens next?

Answer:

Morgan Keegan & Company, Morgan Asset Management and the individual respondents may request a hearing. If they do so, a hearing officer or officers will be appointed and a hearing scheduled.

Should regulators successfully prove the alleged violations and a final order is entered that Morgan Keegan and Morgan Asset Management's registrations should be revoked and the individual Respondents should be barred from the securities industry, they may appeal. They will appeal according to each state's appeal procedure.

Question:

Can Morgan Keegan and Morgan Asset Management continue to operate?

Answer:

Yes, both companies are allowed to operate until a final order is issued.

Question:

Should I seek my own attorney?

Answer:

We encourage investors to seek legal and financial advisers when investing. Personal representation will not interfere with our administrative action.

Question:

Why is DFI filing the administrative action jointly with the states of Alabama, Mississippi and South Carolina?

Answer:

All state security regulators are members of the North American Securities Administrators Association. Because of this relationship, state regulators often collaborate on investigations and examinations. This allows state regulators to combine forces and share resources and talent. It also streamlines the process for the entities being investigated and prosecuted. Instead of responding to duplicative state investigations, they can respond to one combined

investigation. Further, they can resolve any allegations of violations of state securities laws in one proceeding.



Securities Division
1025 Capital Center Drive, Suite 200
Frankfort, KY 40601
502-573-3390
800-223-2579
www.kfi.ky.gov